



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
SPENCER COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2001

**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE SPENCER COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Auditor of Public Accounts has completed the Spencer County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances increased by \$55,500 from the prior fiscal year, resulting in a cash surplus of \$606,454 as of June 30, 2001. Revenues increased by \$756,200 from the prior year and disbursements increased by \$772,731.

Debt Obligations:

Total bonded debt principal as of June 30, 2001, was \$375,000. Future collections of \$420,803 are needed over the next four years to pay all bonded debt principal and interest.

Deposits:

The fiscal court's deposits were uninsured and uncollateralized by bank bonds by \$11,494 on August 31, 2000.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable David Jenkins, Spencer County Judge/Executive
Members of the Spencer County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Spencer County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Spencer County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Spencer County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001 of Spencer County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable David Jenkins, Spencer County Judge/Executive
Members of the Spencer County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated August 16, 2001 on our consideration of Spencer County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Spencer County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 16, 2001

SPENCER COUNTY OFFICIALS

Fiscal Year Ended June 30, 2001

Fiscal Court Members:

David Jenkins	County Judge/Executive
Ray Jewell	Magistrate
Anthony Travis	Magistrate
Bill Shelburne	Magistrate
Bill Drury	Magistrate
David Goodlett	Magistrate

Other Elected Officials:

Robert M. Coots	County Attorney
David Houghlin	Jailer
Robbin G. Walldridge	County Clerk
Phyllis Shafer	Circuit Court Clerk
Steve Coulter	Sheriff
John Sammy Crafton	Property Valuation Administrator
Dennis McClain	Coroner

Appointed Personnel:

Doug Williams	County Treasurer
Karen Curtsinger	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

SPENCER COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets and Other Resources

Assets

General Fund Type

General Fund:

Cash	\$ 353,935	
Road and Bridge Fund:		
Cash	110,149	
Jail Fund:		
Cash	40,446	
Payroll Withholding Account - Cash	7,583	
Retirement Account - Cash	<u>6,257</u>	\$ 518,370

Debt Service Fund Type

Public Properties Corporation Bond Fund:

Cash	\$ 829	
Investments	<u>101,095</u>	101,924
Notes Receivable		

Other Resources

Debt Service Fund Type

Public Properties Corporation Bond Fund:

Amounts to be Provided in Future Years for Bond Payments (Note 4)	<u>375,000</u>
Total Assets and Other Resources	<u><u>\$ 995,294</u></u>

The accompanying notes are an integral part of the financial statements.

SPENCER COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Liabilities and Fund Balances

Liabilities

General Fund Types

Payroll Withholding Account	\$	7,583	
Retirement Account		<u>6,257</u>	\$ 13,840
Public Properties Corporation Bond Fund:			
Bonds Not Matured (Note 4)			375,000

Fund Balances

Reserved:

Debt Service Fund Type

Public Properties Corporation Bond Fund:		101,924
--	--	---------

Unreserved:

General Fund Type

General Fund	\$	353,935	
Road and Bridge Fund		110,149	
Jail Fund		<u>40,446</u>	<u>504,530</u>
Total Liabilities and Fund Balances			<u>\$ 995,294</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

SPENCER COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2001

	General Fund Types			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 3,013,154	\$ 1,425,379	\$ 826,960	\$ 37,687
Transfers In	234,408			120,000
Borrowed Money	270,961			
Kentucky Advance Revenue Program	325,000	288,600	36,400	
Lease-Purchase Proceeds	82,000	30,000	52,000	
Total Cash Receipts	<u>\$ 3,925,523</u>	<u>\$ 1,743,979</u>	<u>\$ 915,360</u>	<u>\$ 157,687</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 2,927,784	\$ 1,343,060	\$ 723,374	\$ 138,288
Transfers Out	234,408	120,000	114,408	
Bonds:				
Principal Paid	85,000			
Interest Paid	24,565			
Trustee Fees	2,305			
Borrowed Money Repaid	270,961			
Kentucky Advance Revenue Program Repaid	325,000	288,600	36,400	
Total Cash Disbursements	<u>\$ 3,870,023</u>	<u>\$ 1,751,660</u>	<u>\$ 874,182</u>	<u>\$ 138,288</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 55,500	\$ (7,681)	\$ 41,178	\$ 19,399
Cash Balance - July 1, 2000 *	<u>550,954</u>	<u>361,616</u>	<u>68,971</u>	<u>21,047</u>
Cash Balance - June 30, 2001 *	<u>\$ 606,454</u>	<u>\$ 353,935</u>	<u>\$ 110,149</u>	<u>\$ 40,446</u>

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

SPENCER COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 Fiscal Year Ended June 30, 2001
 (Continued)

	Capital Projects Fund Types	Debt Service Fund Types
	Community Development Block Grant Fund	Public Properties Corporation Bond Fund
<u>Cash Receipts</u>		
Schedule of Operating Revenue	\$ 723,062	\$ 66
Transfers In		114,408
Borrowed Money	270,961	
Kentucky Advance Revenue Program		
Lease-Purchase Proceeds		
Total Cash Receipts	<u>\$ 994,023</u>	<u>\$ 114,474</u>
<u>Cash Disbursements</u>		
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 723,062	\$
Transfers Out		
Bonds:		
Principal Paid		85,000
Interest Paid		24,565
Trustee Fees		2,305
Borrowed Money Repaid	270,961	
Kentucky Advance Revenue Program Repaid		
Total Cash Disbursements	<u>\$ 994,023</u>	<u>\$ 111,870</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$	\$ 2,604
Cash Balance - July 1, 2000 *		99,320
Cash Balance - June 30, 2001 *	<u>\$ 0</u>	<u>\$ 101,924</u>

* Cash Balance Includes Investments

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Spencer County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Public Properties Corporation Bond Fund as part of the reporting entity.

Additional - Spencer County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Spencer County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Spencer County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Spencer County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, and Jail Fund.

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Properties Corporation Bond Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

3) Capital Projects Fund Type

Capital Project Funds Type accounts for financial resources to be used for acquisition of major capital facilities. The Community Development Block Grant Fund is reported as a Capital Projects Fund Type.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Spencer County budget is adopted on a cash basis of accounting and laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation Bond Fund (Debt Service Fund) because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require this fund to be budgeted.

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Spencer County Fiscal Court: The Spencer County Tourism Commission and the Spencer County Library.

G. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based on these criteria, the following is considered a joint venture with the City Of Taylorsville and Spencer County Fiscal Court: Taylorsville-Spencer County Community Industrial Development Authority.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

SPENCER COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001
 (Continued)

Note 3. Deposits and Investments

A. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of August 31, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$11,494 of public funds uninsured and unsecured.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of August 31, 2000.

	<u>Bank Balance</u>
Insured and collateralized with surety bond	\$ 400,000
Uncollateralized and uninsured	<u>11,494</u>
Total	<u><u>\$ 411,494</u></u>

B. Investments

The county's investments are categorized below to give an indication of the level of risk assumed by the county at year-end. Category 1 includes investments that are insured or registered or the securities are held by the county or by the county's agent in the county's name. Category 2 includes uninsured and unregistered investments where the securities are held by the financial institution in the county's name. Category 3 includes uninsured and unregistered investments where the securities were held by the financial institution, but not in the county's name.

<u>Types of</u> <u>Investments</u>	<u>Category</u> <u>1</u>	<u>Category</u> <u>2</u>	<u>Category</u> <u>3</u>	<u>Carrying</u> <u>Amount</u>	<u>Market</u> <u>Value</u>
Federal Money Market Funds	<u>\$ 101,095</u>	<u>\$</u>	<u>\$</u>	<u>\$ 101,095</u>	<u>\$ 101,095</u>

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 4. Long-Term Debt

Bonds outstanding Public Properties Corporation Bond Fund are \$375,000 as of June 30, 2001. These bonds were issued on July 1, 1984, at various interest rates ranging from 9 percent to 12.75 percent per the Spencer County Public Properties Corporation for road construction and repair.

These outstanding 1984 Series A Bonds were refunded on January 1, 1995, by the application of the proceeds of the bonds. The refunded bond plan was undertaken to obtain lower interest rates of 4.5 percent to 6 percent.

Due Date	Scheduled Interest	Scheduled Principal
June 30, 2002	\$ 19,598	\$ 90,000
June 30, 2003	14,355	90,000
June 30, 2004	8,850	95,000
June 30, 2005	3,000	100,000
Totals	<u>\$ 45,803</u>	<u>\$ 375,000</u>

Note 5. Lease-Purchase Agreements

The county has entered into the following lease-purchase agreements:

Description	Purchase Date	Maturity Date	Interest Rate	Principal Balance June 30, 2001
Vehicle and Telephone	1/4/2000	1/20/2005	3.72%	\$ 43,518
Ambulance	1/16/2001	1/20/2005	4.50%	\$ 27,120
Dump Truck	4/18/2001	4/20/2006	4.00%	\$ 50,429

Note 6. Subsequent Events

The Fiscal Court has tentatively agreed to enter into a lease agreement with the Kentucky Association of Counties Leasing Trust to borrow approximately \$900,625, with the proceeds to be used to renovate the Spencer County Courthouse

Note 7. Insurance

For the fiscal year ended June 30, 2001, Spencer County was a member of the Kentucky Association of Counties' All Lines Insurance Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

SPENCER COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 1,335,906	\$ 1,425,379	\$ 89,473
Road and Bridge Fund	686,458	826,960	140,502
Jail Fund	184,381	37,687	(146,694)
Local Government Economic Assistance Fund	500		(500)
<u>Capital Projects Fund Type</u>			
Community Development Block Grant Fund	<u>1,250,000</u>	<u>723,062</u>	<u>(526,938)</u>
Totals	<u>\$ 3,457,245</u>	<u>\$ 3,013,088</u>	<u>\$ (444,157)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 3,457,245
Add: Budgeted Prior Year Surplus			<u>450,971</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 3,908,216</u>

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SCHEDULE OF OPERATING REVENUE

SPENCER COUNTY
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2001

Revenue Categories	GOVERNMENTAL FUND TYPES			
	Totals (Memorandum Only)	General Fund Type	Capital Projects Fund Type	Debt Service Fund Type
Taxes	\$ 640,933	\$ 640,933	\$	\$
In Lieu Tax Payments	9,826	9,826		
Excess Fees	42,621	42,621		
License and Permits	238,115	238,115		
Intergovernmental Revenues	1,695,599	972,537	723,062	
Charges for Services	296,181	296,181		
Miscellaneous Revenues	51,378	51,378		
Interest Earned	38,501	38,435		66
Total Operating Revenue	<u>\$ 3,013,154</u>	<u>\$ 2,290,026</u>	<u>\$ 723,062</u>	<u>\$ 66</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

SPENCER COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 503,722	\$ 460,191	\$ 43,531
Protection to Persons and Property	654,905	573,743	81,162
General Health and Sanitation	56,595	54,484	2,111
Social Services	25,710	21,406	4,304
Recreation and Culture	275,500	24,831	250,669
Roads	630,022	604,907	25,115
Debt Service	38,982	47,375	(8,393)
Capital Projects	126,932	113,436	13,496
Administration	345,848	304,349	41,499
Total Operating Budget - All General Fund Types	\$ 2,658,216	\$ 2,204,722	\$ 453,494
Other Financing Uses:			
Borrowed Money-			
Kentucky Advanced Revenue Program - Principal		325,000	(325,000)
Transfers to Public Property Corporation Bond Fund	117,065	114,408	2,657
TOTAL BUDGET - ALL GENERAL FUND TYPES	<u>\$ 2,775,281</u>	<u>\$ 2,644,130</u>	<u>\$ 131,151</u>

SPENCER COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 Fiscal Year Ended June 30, 2001
 (Continued)

Expenditure Categories	CAPITAL PROJECTS FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Capital Projects	\$ 1,250,000	\$ 723,062	\$ 526,938
Total Operating Budget - All Capital Projects Fund Types	\$ 1,250,000	\$ 723,062	\$ 526,938
Other Financing Uses:			
Borrowed Money-			
North Central and Spencer County Health Departments - Principal		270,961	(270,961)
TOTAL BUDGET - CAPITAL PROJECTS FUND TYPE	\$ 1,250,000	\$ 994,023	\$ 255,977

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable David Jenkins, Spencer County Judge/Executive
Members of the Spencer County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Spencer County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated August 16, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Spencer County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Spencer County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 16, 2001

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable David Jenkins, Spencer County Judge/Executive

Members of the Spencer County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Spencer County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2001. Spencer County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Spencer County's management. Our responsibility is to express an opinion on Spencer County's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Spencer County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Spencer County's compliance with those requirements.

In our opinion, Spencer County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Spencer County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Spencer County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 16, 2001

FINDINGS AND QUESTIONED COSTS

SPENCER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2001

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Spencer County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Spencer County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Spencer County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Spencer County reported in Part C of this schedule.
7. The program tested as a major program was: Community Development Block Grant
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Spencer County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None.

NONCOMPLIANCES

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None.

D. PRIOR YEAR FINDING – FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None.

NONCOMPLIANCES

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits.

This was corrected during fiscal year ended June 30, 2001.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SPENCER COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2001

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
 Cash Programs:		
 U.S. Department of Housing and <u>Urban Development</u>		
 Passed-Through State Department of Local Government:		
State Administered Small Cities Program (CFDA #14.228)		
Community Development Block Grants-	00-022	\$ 499,000
 <u>U. S. Federal Emergency Management Agency</u>		
 Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants-		
Coordinator Salary (CFDA #83.503)	N/A	<u>4,486</u>
 Total Cash Expenditures of Federal Awards		 <u><u>\$ 503,486</u></u>

SPENCER COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2001

Note 1 - Basis of Presentation

This schedule is presented on a modified cash basis.

Note 2 - As required by this grant agreement, all program moneys received by the recipient after the completion of all recipient grant activities shall be used by the recipient for community or economic development activities eligible for assistance under Title I of the Housing and Community Development Act of 1974, so specified in the Commonwealth of Kentucky's Community Development Block Grant Eligible Activities Policy Statement.

